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CENTRAL INTELLIGENCE AGENCY

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INFORMATION REPORT

REPORT

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SUPPLEMENT TO  
REPORT NO.

COUNTRY USSR

SUBJECT Financing of Naval Construction and Repair

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1. In the Soviet Union all organizations were generally placed in two classes: the self-sustaining organizations (Khozraschetnyy) and the budget organizations; the latter neither produce concrete products for resale nor pay their own way. Examples of the former include the Ministry of Shipbuilding and other similar productive organizations. These enterprises received capital with which to begin operations either in money credited to their accounts in the state banks, or by concrete means such as shipyards, materials, etc; after operations have commenced they were expected to return all profits, plus the capital, to the government. In the latter category were included all the defense or security ministries, including the Ministry of the Navy. The budget organizations, however, had no means whatsoever of self support and were maintained entirely by funds given them by the Finance Ministry, which controlled appropriations set forth in the yearly budget.
2. The Ministry of Shipbuilding, although a self-sustaining enterprise, received money with which to operate during a fiscal year. This money was spent on the maintenance of personnel, for the purchase of shipbuilding materials, for the repair and equiptage of shipyards, and other expenditures incidental to their operations. Their yearly profits, in addition to straight payments, were returned to the government largely through taxation. The Ministry of the Navy received its funds yearly and used them for the payment of personnel, the building of new vessels, and repair and alteration of existing units, the repair and modernization of those shipyards which fall directly under their control, and for other items of purely naval interest (naval ordnance, etc).

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3. The Ministry of the Navy, when it wished to construct a new unit of a size which could not be built in their own yards or bases, placed an order with the Ministry of Shipbuilding. A conference was then held between officers of the navy (in this case called clients or zakazchiki) and representatives of the shipyard concerned. During negotiations the parties came to an agreement as to the technical conditions of construction, such as the quality of the work, the length of time allowed, the cost, and the terms of payment. Work standards were derived from books called Technical Conditions (Tekhnicheskiye Usloviya), which were made up by the Navy for each class of vessel. In that way the construction details would be the same for ships of the same class, regardless of the location of construction. The agreement of the two parties would be set forth as an "act of conformance with technical conditions". Using this act as a basis, the inspectors (voyenpred) of the navy would inspect periodically and, when each section of the vessel was completed, testify as to the quality of the work performed and, if acceptable, would allow payment to be made to the shipyard. The inspectors had offices at all shipyards where any work was performed for the Navy.

#### Payment for New Constructions

4. According to the "act of conformance with technical conditions", the work on a vessel was broken down into percentages of work completed, eg, when the hull was completed, the vessel was considered 25 per cent complete, etc. When the shipyard finished a section and it was acceptable to the inspectors, payment for that section was allowed. Payments were made by check and transactions cleared through a state bank. As each part was completed and accepted, another percentage of the total payment was passed to the shipyard. When the vessel was fully completed and the inspectors signed a statement of acceptance to that effect, and the vessel had passed its shake-down run, the remaining percentage of the total payment was made and the vessel taken over by the navy to be fitted out. If one of the sections of the vessel were unacceptable to the inspectors, the shipyard, at no additional cost to the navy, was obliged to redo the work and, if necessary, completely rebuild the section in question. Most agreements were made that the vessel be sea-worthy when completed by the yard, which meant that everything but armament and equipment, such as radios, etc, was included in the price of the vessel. Also, if the shipyard failed to carry out a portion of the work within the time limits agreed upon, it had to pay a fine.

#### Repair

5. The Ministry of the Navy accomplished repairs to its vessels by two means. First, if the repairs were minor or if the work necessary pertained to purely naval ordnance or the like, the work was done in their own yards or bases. In some cases, the navy owned shipyards capable of making capital repairs but only in exceptional cases. Second, the work, if major repairs were necessary, was done in shipyards of the Ministry of Shipbuilding. All fleets and flotillas maintained bases, with the known exception of the Caspian Flotilla, whose work was done by three shipbuilding yards (Zakfederalatsiya, Parizhsкая Kommuna, or the Vano Sturua, all located in Baku) belonging to the Ministry of Shipbuilding (MinSudProm). The funds necessary for payment of these repairs were handled in the same manner as in the case of new construction. The conditions of work to be done were agreed upon by the navy and the shipyard, using the same percentage scale as usual. Payment to the yard was made only when the work had been approved and accepted by the inspectors. These funds, earmarked for repairs, were included as such in the budget funds received by the navy.

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